LITERATURE KEY FINDINGS
HR Shared Services:
Determining the Scope, Scale, and Structure

KEY QUESTIONS

- *What is the business case for HR shared services?*

- *How are HR shared service centers structured?*

- *What are the core processes/services housed in an HR shared service center?*

- *How is service delivery configured within an HR shared services function?*

- *What technology is employed in HR shared service centers?*

- *What metrics are used to benchmark shared service functions?*

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ISSUE OVERVIEW

As today's organizations rise to meet the competitive and structural demands of rapid globalization, the human resources function is challenged to support the business through this transition. Surveys conducted by the Institute of Management and Administration (IOMA) and Mercer Human Resources Consulting indicate that one of the most critical issues facing HR departments is the need to support the business by reducing costs through increased efficiency and higher productivity. As such, HR must become a strategic business partner and tailor its functional activities to positively affect the bottom line.[1,2]

When determining how to manage these challenges, HR leaders must choose among many service delivery and structural alternatives. Solutions such as HR technology and outsourcing help HR departments reduce administrative workloads and improve accuracy of HR information. Likewise, HR may restructure service delivery methods to increase efficiency and provide a consistently high level of quality.

HR shared service centers capitalize on many benefits highlighted above, making such centers a compelling option for HR functions. HR shared services allow organizations to leverage economies of scale by consolidating resources and streamlining processes through effective use of technology and a simplified hierarchy of service delivery. Indeed, research indicates that the adoption of an HR shared service center can lead to cost reductions of 25%–40%, including savings from reduced transaction overheads and HR headcount. In addition, HR shared services lowers HR's administrative burden, freeing HR professionals to devote time to strategic and value-added activities.[3]

This document provides an overview of HR shared services by outlining the business case for HR shared services, the structure of shared services, and the core processes and activities housed in HR shared services. This report provides information about technology employed in HR shared service centers and metrics used to benchmark HR shared services performance for members considering the implementation of shared services centers.

RESEARCH METHODOLOGY

The research contained in this document was gathered using search engines such as LexisNexis, consulting resources such as Hewitt Associates and Mercer HR, and the Council's research archives.

What is the business case for HR shared services?

Research indicates that two key drivers are responsible for the rise of shared services in the business world: globalization and technological advance. As organizations grow increasingly dispersed, HR administrators look for ways to contain costs and ensure high-quality, standardized service to the company's internal customers. Shared services has provided a framework for realizing these goals.[4]

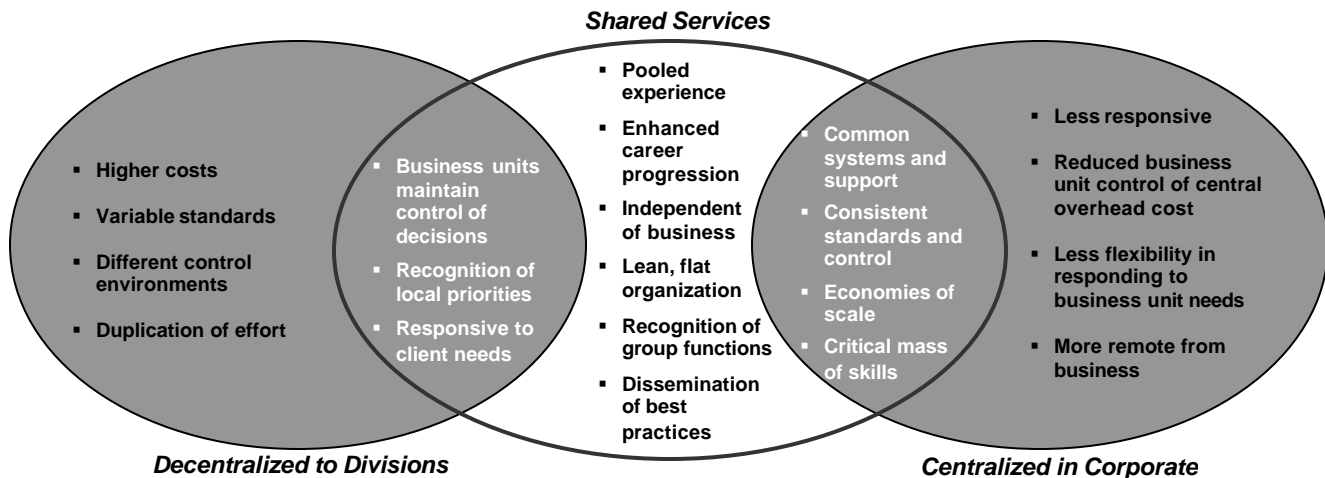#### Strategic Objectives Driving Shared Services Implementation

Research indicates that the shared services implementation can achieve three main objectives for the HR function, as highlighted below:[5,6,7,8,9]

① **Reduce operational costs and improve process efficiency**—The benefits associated with economies of scale and the elimination of duplicated effort help streamline HR service delivery. By consolidating, standardizing, and automating processes, HR shared service centers operate more efficiently and cost effectively than purely centralized or decentralized HR delivery models. HR shared services routinely provide organizations with between a 25% and 40% reduction in overall HR expenses, as streamlined technology and reduced HR staff can manage increased service volume, enabling considerable savings.

② **Enable HR to focus on strategic issues**—Improving HR's structural flexibility and freeing the function of routine tasks enables HR to focus efforts on strategic goals. Repositioning HR as a strategic contributor enables organizations to focus efforts on business and organizational improvement.

③ **Improve service quality**—Efficient service processes help deliver consistent, timely, and accurate solutions to internal customers. Improvements in managing human capital and communication between HR and the business units enable more knowledge-sharing and continuing performance improvement.

Consolidating Service Models to Improve HR Performance

Shared services create a centralized service function that treats employees and business-based HR professionals as customers. There are several advantages to this service model, as the model combines aspects of traditional corporate centralized and business unit decentralized HR functions. The figure below highlights ways in which shared services combines advantages of both service delivery models to improve overall HR performance:[10]

Figure 1: Blending Service Models for HR Performance Benefits

Shared Services

- Higher costs
- Variable standards
- Different control environments
- Duplication of effort

- Business units maintain control of decisions
- Recognition of local priorities
- Responsive to client needs

- Pooled experience
- Enhanced career progression
- Independent of business
- Lean, flat organization
- Recognition of group functions
- Dissemination of best practices

- Common systems and support
- Consistent standards and control
- Economies of scale
- Critical mass of skills

- Less responsive
- Reduced business unit control of central overhead cost
- Less flexibility in responding to business unit needs
- More remote from business

Decentralized to Divisions
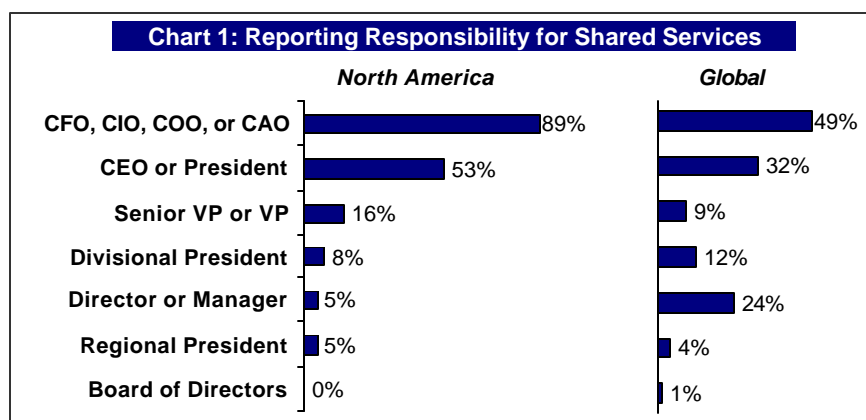
Centralized in Corporate

How are HR shared service centers structured?

The structure of the HR shared services function influences its effectiveness within a particular organization. While control and placement of the function varies, research indicates a trend toward senior-level ownership of the function. In addition, organizations can choose to keep HR shared services in-house or outsource the function to maximize quality and cost.

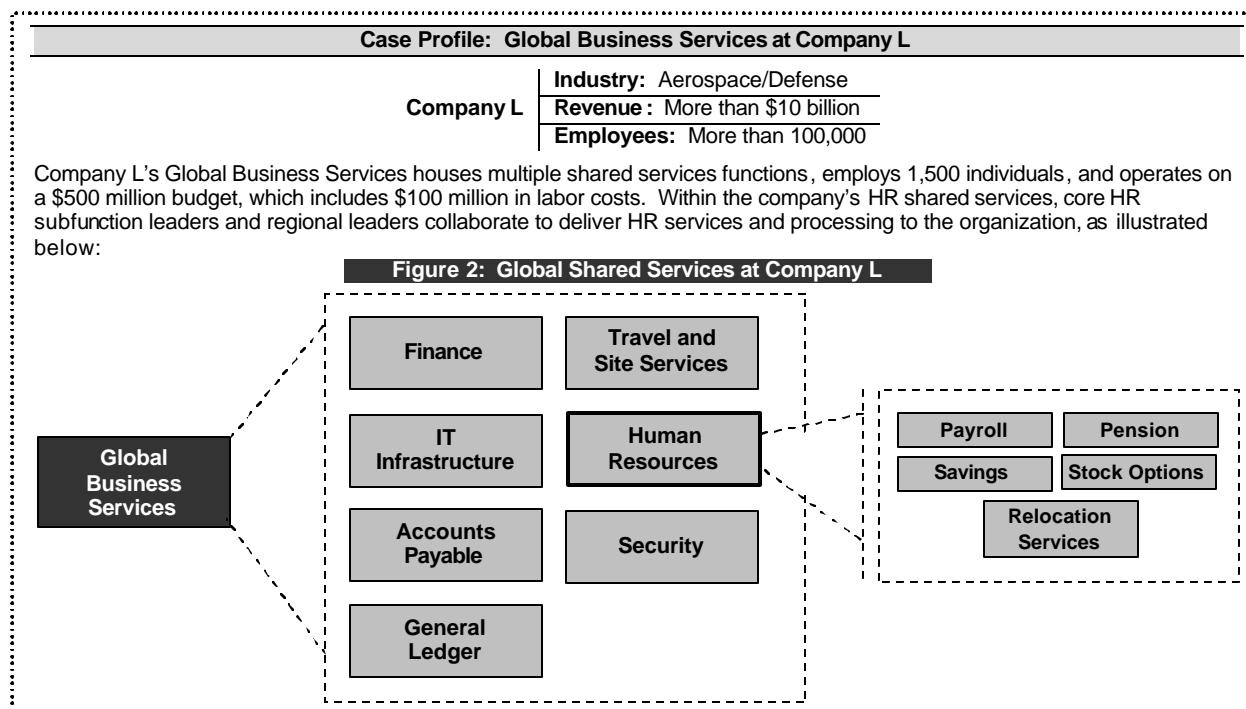**Governance Responsibilities for Shared Services**
Effective governance and oversight of shared services functions play a critical role in its success. Research indicates that 89% of shared service functions in North America report to the executive level. The chart below further details reporting responsibilities for shared services functions:[11]

Chart 1: Reporting Responsibility for Shared Services

	North America	Global
CFO, CIO, COO, or CAO	89%	49%
CEO or President	53%	32%
Senior VP or VP	16%	9%
Divisional President	8%	12%
Director or Manager	5%	24%
Regional President	5%	4%
Board of Directors	0%	1%

Positioning HR Shared Services
The structure of HR shared services within an organization influences the cost, service quality, and strategic alignment of the function. Companies can position the shared services structure in several ways in order to best serve their employees, as detailed below:[12]

▪ **Housing HR Shared Services within a Larger Shared Services Function**—Some organizations create large shared services groups with responsibility for several functions, including HR. By housing HR shared services within a larger shared services function, companies may realize greater cost effectiveness. The following case profile details the global shared services structure at a profiled aerospace/defense company:

Case Profile: Global Business Services at Company L

Company L	**Industry:** Aerospace/Defense
	Revenue : More than $10 billion
	Employees: More than 100,000

Company L's Global Business Services houses multiple shared services functions, employs 1,500 individuals, and operates on a $500 million budget, which includes $100 million in labor costs. Within the company's HR shared services, core HR subfunction leaders and regional leaders collaborate to deliver HR services and processing to the organization, as illustrated below:

Figure 2: Global Shared Services at Company L

## How are HR shared service centers structured? (Continued)

- **Free-Standing HR Shared Services**—Organizations may create a shared services function focused solely on HR-related transactions. This enables direct alignment of HR shared services with the strategic HR function, strengthening strategic HR's ability to drive organizational change through shared services. The following case profile details the transition to shared services structure at a profiled high-tech company:

Case Profile: Transitioning from Centralized Administration to HR Shared Services at Company C

Company C	**Industry:** High-Tech
	Revenue : More than $10 billion
	Employees: 50,000 – 100,000

Company C transitioned from a centralized administration team to a more streamlined HR shared services model that utilized self-service technologies. The transition reduced staff from 108 to 22, with a Vice President overseeing the department and four subfunctional directors, as outlined below:

Figure 3: Free-Standing HR Shared Services at Company C
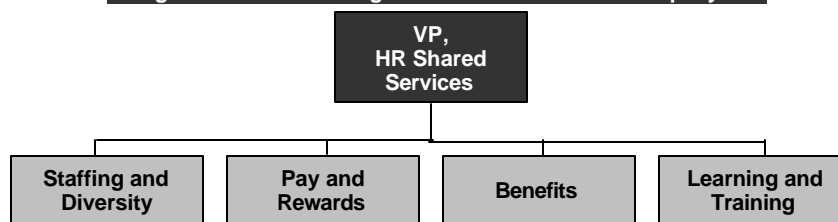
Managers serve under each director and are responsible for various duties, including tool and process development, roll-out, and implementation. In addition, managers serve as liaisons between the line and functional center.


- **Outsourcing HR Shared Services**—To contain costs and create a single point of contact for HR services, companies may outsource lower-level HR services, such as transactional activities and call centers. As a result, HR personnel remaining within the organization support complex cases, formulate HR strategy, and manage vendor relationships. The following case profile details shared services outsourcing at a profiled telecommunications company:

Case Profile: Providing HR Shared Services through a Super-Vendor at Company E

Company E	**Industry:** Telecommunications
	Revenue : More than $10 billion
	Employees: More than 100,000

Company E's core HR group consists of approximately 20 senior HR managers, lower-level field managers, and representatives. This core group works with a super-vendor that manages content specific vendors to serve the company's internal customers. As outlined in the figure below, employees at Company E contact the super-vendor, which then directs employees to the appropriate vendor with oversight of the relevant topic area, such as pension management or life insurance:

Figure 4: Outsourced HR Shared Services at Company E
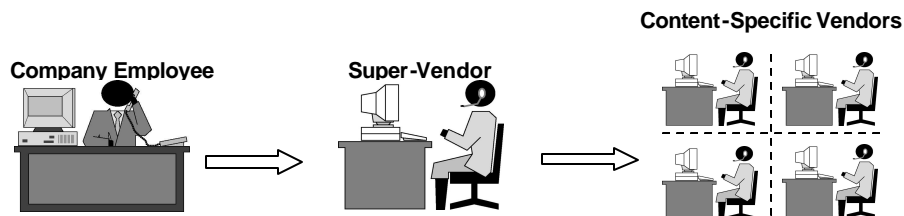
Four to five members of senior management from Company E and the super-vendor compose the governing team for the outsourcing relationship. Multiple call centers, representing nearly all HR subfunctions, serve the needs of Company E's internal customers.

What are the core processes/services housed in an HR shared service center?

Research indicates that high-volume administrative activities tend to be delivered through shared service functions. Standardized processes for these activities allow for streamlined service delivery, increased efficiency, and a consistent, high level of quality.[13]

Characteristics of Shared Service Processes
HR shared service centers typically manage transactional and administrative HR services due to the ease of standardized delivery. Other characteristics typical of shared service processes include those listed below:[14,15]

- Few interfaces with other processes or technologies
- Geographical independence
- High degree of corporate-wide commonality
- Limited external customer dependence

- Limited product/business dependence
- Low financial or business risk
- Transaction-based activities

Most Common Shared Services Processes
Research indicates that organizations commonly incorporate the most readily standardized processes into HR shared services. The following processes are some of the most common delivered by HR shared service functions:[16]

- Benefits
- Global Services (e.g., relocation, repatriation)
- HRMS

- Learning
- Payroll
- Staffing

Shared Service Processes
HR shared service centers manage requests with administrative, operational, or strategic processes. This model establishes a clear service and content expertise continuum for improved request management. The table below details where core HR processes fall within this model:[17]
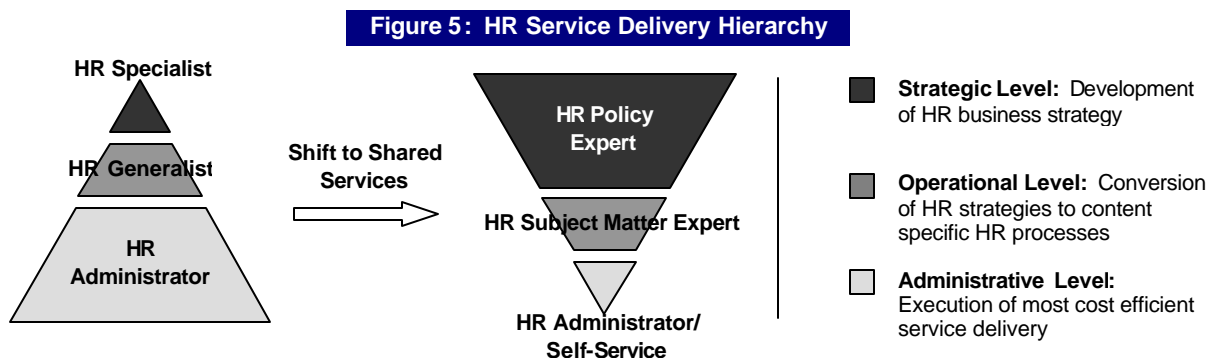
Table 1: Shared Service Processes		
Administrative	*Operational*	*Strategic*
• Compensation & Benefits • Employee Communications • Payroll • Relocations/Transfers • Scheduling/Timekeeping	• Management/Leadership Competencies • Organizational Management • Performance Management • Recruitment • Training & Development • Vendor Management • Workforce Planning	• Executive Compensation • HR Strategy

How is service delivery configured within an HR shared services function?

Organizations design HR shared service delivery to support the function's objectives: low costs, high quality, and a shift toward strategic contribution. As such, service processes are designed to maximize efficiency in managing employee service requests and encourage high-level contribution from HR professionals.

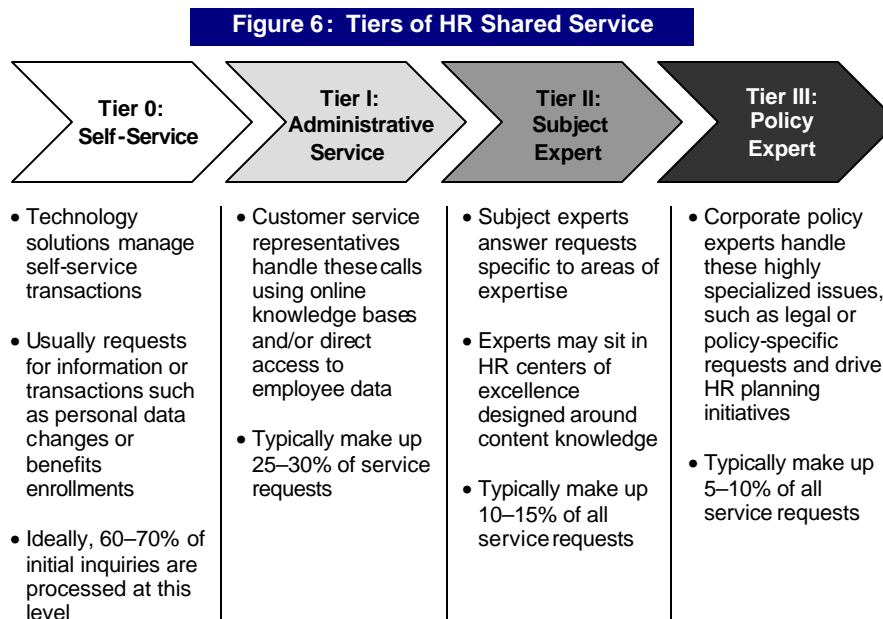**HR Shared Service Center Hierarchy**
HR shared services transform the HR function into a top heavy, strategic business contributor. The figure below details the shift in roles, responsibilities, and process hierarchy in an HR shared service environment:[18]

Figure 5: HR Service Delivery Hierarchy

HR Specialist
HR Generalist
HR Administrator

Shift to Shared Services

HR Policy Expert
HR Subject Matter Expert
HR Administrator/ Self-Service

Strategic Level: Development of HR business strategy

Operational Level: Conversion of HR strategies to content specific HR processes

Administrative Level: Execution of most cost efficient service delivery

How is service delivery configured within an HR shared services function? (Continued)

Four Distinct Tiers of HR Shared Service Operation

HR shared service centers integrate people, process, and technology to more effectively deliver HR services to internal customers. Shared service centers typically operate at four distinct levels to manage service requests, as detailed in the figure below:[19,20,21]

Figure 6: Tiers of HR Shared Service

Tier 0: Self-Service	Tier I: Administrative Service	Tier II: Subject Expert	Tier III: Policy Expert
• Technology solutions manage self-service transactions • Usually requests for information or transactions such as personal data changes or benefits enrollments • Ideally, 60–70% of initial inquiries are processed at this level	• Customer service representatives handle these calls using online knowledge bases and/or direct access to employee data • Typically make up 25–30% of service requests	• Subject experts answer requests specific to areas of expertise • Experts may sit in HR centers of excellence designed around content knowledge • Typically make up 10–15% of all service requests	• Corporate policy experts handle these highly specialized issues, such as legal or policy-specific requests and drive HR planning initiatives • Typically make up 5–10% of all service requests

What technology is employed in HR shared service centers?

Research notes that advancement in technology offerings is a primary driver behind the growth of shared service functions. The type of technology an organization uses is critical to employee usability, cost savings, and overall success of the HR shared service function.[22,23]

Self-Service Technology

As a primary HR service mechanism, self-service technology allows employees to address issues in the most direct and efficient manner possible. Employees are able to view and manage their own records, which helps streamline operations and ensure increased accuracy of records. Several technologies supporting self-service are detailed below:[24,25]

- **E-HR Portal**—Most companies encourage self-service by implementing a shared service center portal (e.g., Web-based), ensuring ease of use and increased utilization of this primary service mechanism. Employees should be able to view policies, edit records, and find answers to a wide range of HR-specific questions, such as benefits and payroll information. In addition, these portals should provide ways for employees to contact HR administrators via e-mail or live chat interfaces.
- **Interactive Voice Response (IVR)**—This phone-based system allows employees to hear pre-recorded answers to basic HR questions, and allows employees to speak directly to HR administrative support if necessary.

HR Shared Service Center Technology

Technology continues to play a major role in HR shared service delivery beyond the self-service level. Organizations are implementing a number of the technologies detailed below as means to further streamline and improve internal customer service:[26]

- **Case Management/Call Tracking Database**—Such databases enable HR leaders to benchmark call center resolutions and performance to determine trends for process and service improvement.
- **Click-to-Chat**—Located within HR shared service portals, click-to-chat links provide a one-click option that connects employees directly to an HR service professional, either over the phone or in an online chat window.
- **Computer Telephony Integration**—Employee data is automatically retrieved and shown to call center employees to improve processing time and ensure accuracy.
- **Document Imaging**—These record systems allow for the transfer of hard copy records to electronic storage and management. These systems streamline records and allow for greater accuracy and improved retrieval.

What metrics are used to benchmark shared service functions?

The large expenditures associated with HR shared services warrant the identification of metrics to benchmark function performance. With most shared services functions reporting to senior-level executives, the importance of providing demonstrable returns is increasingly important.

Measures of Effectiveness
Metrics for HR shared services functions provide insight into function efficiency and effectiveness. Organizations should measure several financial, procedural, and customer feedback-based elements to determine strengths and development areas. The table below highlights several metrics in each of these categories:[27]

Table 2: HR Shared Services Metrics by Category		
Financial	**Procedural**	**Customer Feedback-Based**
• Cost broken down by offerings and utilization of offerings • Costs per full-time employee (FTE) • Shared services cost growth relative to corporate revenue growth and/or corporate expenditures	• Backlog • Issue resolution cycle time • Metrics for specific tasks (e.g., time-to-fill recruiting duties) • Six Sigma • Turnaround time • Users' time on hold • Utilization rates by phone, e-mail, fax, or Web	• Periodic surveys of internal customer population • Reviews of past calls for customer service quality • Surveys targeting specific user groups

HR Management Metrics
As previously mentioned, shared services functions dramatically reduce HR costs from 25% to 40%. Survey research details the cost and staffing metrics for HR functions at organizations with shared service centers, as detailed in the table below:[28]

Table 3: HR Management Benchmarks		
Metric	**With Service Center**	**Without Service Center**
HR expense per Full Time Employee	$2,017	$2,403
Employee-to-HR staff ratio	104:1	82:1
Percent of time devoted to program administration	22%	31%
Percent of time devoted to answering request	12%	17%

Service Center Contact Metrics
Survey research also highlights shared service center metrics. Several key service level metrics and benchmarks are detailed below:[29]

▪ **Monthly Live Support Requests**
  The table below details the percentage of organizations receiving different numbers of support requests. The majority of organizations fielding requests in the medium range.

Table 4: Monthly Support Requests		
Demand	**Monthly Live Support Requests**	**Percentage Reporting at Demand Level**
Low	<1,000	23.9%
Medium	1,001 to 7,500	51.1%
High	>7,500	25.0%

▪ **Phone Contacts Benchmarks**
  Abandon Rate: Over 55% of respondents reported abandon rates between 1% and 5%, with an additional 15% or respondents reporting no abandons.
  Hold Time: Nearly 80% of respondents reported average hold times of two minutes or less.
  Talk Time: Almost 75% of respondents reported talk times of less than 15 minutes.

▪ **E-mail Contacts**
  Time to Acknowledge: Just over half (52%) of e-mails are acknowledged as received within 15 minutes. Additionally, 37% require between 15 minutes and 4 hours, with nearly 11% requiring greater than 4 hours of time to acknowledge.
  Time to Respond: Over half (57.3%) of e-mails are responded to within 4 hours. Nearly 21% require more than one day for a response.

What metrics are used to benchmark shared service functions? (Continued)

Service Response Time Objectives

Survey research also identifes response time metrics as important measures of customer satisfaction. Response time metrics for various media are detailed below:[30]

- **Chat:** 90% of chat conversations answered within 20 seconds
- **E-mail:** 4.01 hours to 24 hours
- **Fax:** 4.01 hours to 24 hours
- **Phone:** 80% of calls answered within 20 seconds
- **Web Call-Through (Voice over IP-based "click-to-talk"):** 80% of calls within 20 seconds

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